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The New Politics of the Welfare State Revisited: Welfare Reforms, Public-Sector Restructuring and Inegalitarian Trends in Advanced Capitalist Societies

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Abstract

In recent years, it has become commonplace for comparativists to emphasize the resilience of welfare states in advanced capitalist societies, and the failure of neo-liberal efforts to dismantle the welfare state. This paper takes issue with some of the tenets of the resilience thesis. We argue that a sharp deceleration of social spending has occurred in most OECD countries since 1980, and that welfare states have failed to offset the rise of market-generated inequality and insecurity. Also, we stress the distributive and political consequences of market-oriented reforms of the public sector.

The goal of this paper is to provide a balanced assessment of what has happened to the welfare state in advanced capitalist societies over the last 15-20 years. What are we to make of recent spending cuts and welfare reforms? Do they represent a fundamental rollback of the welfare activities of the state, and thus a belated victory for Thatcherite-Reaganite ideas? Or should these changes rather be seen as incremental adjustments of mature welfare states, proven to be more enduring than their critics?

Already in the 1970s, many scholarly observers concluded that the welfare state had reached its outer limits and began to speak of a crisis of the welfare state. The rhetoric of crisis was inspired by the idea, shared by neo-marxists and neo-liberals, that the redistributive logic of the welfare state contradicted the logic of capitalism, and that the welfare activities of the state would have to be rolled back or reconfigured so as to conform to the needs of capitalism. With neo-liberal ideas gaining ascendancy in both the U.K and the U.S. at the onset of the 1980s, the fate of the welfare state appeared to be sealed. In retrospect, however, it is clear that Thatcher's and Reagan's achievements in the realm of welfare reform fell short of what their rhetoric led us to expect. Against this background, the resilience of the welfare state has emerged as a prominent theme in the scholarly literature of the 1990s. Even the *Economist* (September 20, 1997) has recently picked up on this theme, bemoaning the fact that government spending, as a percentage of GDP, has not declined noticeably in any of the OECD countries.

We argue that proponents of the resilience thesis overlook important developments and that some of the evidence they present can be read differently. Without resurrecting the crisis rhetoric of the 1970s and its functionalist premises, we emphasize that major changes have indeed occurred in the scope and organization of public welfare provision not only in the U.K. and the U.S., but across the OECD area. Paul Pierson's (1996) *World Politics* article, entitled "The New Politics of the Welfare State," will serve as a foil for this discussion. Widely cited, Pierson's article provides, we think, the clearest and most compelling presentation of the case for welfare-state resilience.[1] Based on aggregate OECD statistics as well as case studies of Germany, Sweden, the U.K. and the U.S., Pierson argues that welfare cutbacks and reforms have been strictly limited in scope. At the same time, he observes, "the power of organized labor and left parties has shrunk considerably in many advanced industrial societies" (Pierson 1996:150). Together, these observations pose a challenge for the power resource model developed by Walter Korpi (1983) and others to explain cross-national variations in welfare-state development. As Pierson would have it, the politics of welfare-state retrenchment appear to be fundamentally different from the politics of welfare-state expansion.

Pierson advances three arguments to explain welfare-state resilience. First, he argues that "the welfare state now represents the status quo, with all the political advantages that this status confers" (174). Especially in countries where power is shared among different institutions, radical reform is inherently difficult. Secondly, Pierson argues that welfare cutbacks tend to be associated with high electoral costs for the simple reason that basic welfare programs enjoy widespread popular legitimacy. Thirdly, he attributes resilience to successful mobilization by well-organized groups representing the interests of consumers of welfare benefits (such as retirees) as well as employees of the welfare state. The combination of these factors yields a politics of blame avoidance in which cutbacks can only take place through incremental and surreptitious mechanisms or during moments of extraordinary fiscal stress and political consensus.

One of Pierson's major contributions is to insist on the need to disaggregate the welfare state, and to analyze change within specific social policy programs. Pierson suggests that the arguments set out above not only explain the general phenomenon of welfare-state resilience, but also explain why some welfare programs have been cut more than others. Here, too, a central feature of Pierson's analysis is the claim that concentrated interests will prevail over more diffuse and less well-organized constituencies.

At many points in Pierson's discussion, the thorny question of how we should distinguish radical change from incremental adjustments arises. For instance, writing about Sweden in the early 1990's, Pierson (1996:171) tells us that conditions were uniquely favorable to a "complete overhaul of social policy," but even so "there was no sign that the welfare state would be radically restructured." Exactly what, then, would a "complete overhaul of social policy" or a "radical restructuring of the welfare state" entail? And should we not allow for some outcomes that are neither "incremental adjustments" nor "complete overhauls"? While Pierson's discussion leaves something to be desired on this score, we wish to avoid a lengthy conceptual discussion. Essentially, we want to make five points. The first point is that recent cutbacks and welfare reforms should be situated in the context of rising social inequality and insecurity. Since the late 1970s, the dynamics of advanced capitalism have been undoing some of the postwar achievements of welfare states. Increased welfare efforts would have been required to maintain these achievements.

Our second point is that the retrenchment literature to date deals primarily with the experience of the 1980s. As we update the qualitative and quantitative evidence presented by Pierson, the resilience thesis becomes less compelling. Our third point concerns quantitative measures of welfare effort and the size of the public sector. We argue that Pierson's measures are flawed because they are based on a GDP denominator and fail to take into changes in societal welfare needs. Addressing these two problems, the alternative measures that we propose show that the rapid growth of social spending in the 1960s and 1970s came to an end in the 1980s, and that public services were more affected the deceleration of growth thar transfer programs. Measuring the welfare state in terms of the absolute size of the public-sector labor force, we find quite a few instances of "welfare state shrinkage" in recent years.

This last observation leads directly to our fourth point: the retrenchment literature exemplified by Pierson's work focuses on the question of the extent to which welfare entitlements have changed and tends to ignore the question of changes in the delivery of social services or, in other words, the question of how the public sector is organized. While Pierson does discuss health care, most of the entitlement programs that he considers are based on transfer payments. At least in Sweden and the U.K., however, it is in the realm of public services that we find the most significant cutbacks and market-oriented reforms. Related to this, finally, summing up changes in individual social programs does not provide the basis for an adequate assessment of what has happened to welfare states over the last 10-15 years. We must also consider changes in the overall configuration of the welfare state, e.g., how the allocation of resources among individual programs might have changed. Thus we propose to explore not only "welfare-state retrenchment"--a term which implies that the welfare state might be shrinking, expanding, or holding steady--but also "welfare-state restructuring."

The importance that we assign to the public sector as a site of service production follows from Esping-Andersen's (1990) well-known and much-admired comparative analysis of welfare-state development. As Esping-Andersen points out, the Scandinavian welfare states are distinguished by their reliance on the direct provision of services. Yet state-produced services constitute a crucial dimension of the public provision of social welfare in virtually all advanced capitalist societies these days. And, to the extent that it involves non-profit production and allocation of output according to political criteria, it is this dimension of the welfare state that contradicts the logic of capitalism most directly.[2]

By way of conclusion, we will present some arguments intended to explain the patterns of welfare-state restructuring that we observe. It should already be clear, however, that the purpose of this paper is <u>not</u> to test causal claims. Our debate with Pierson is about the meaning of recent developments. This type of debate is an essential complement to the social science tradition geared towards causal analysis.

Growing Market Inequality

In this section, we present descriptive statistics to support the propositions that inequality among wage-earners has increased and that security of employment and income has diminished for many wage-earners in advanced capitalist societies since 1980.[3] Without denying their existence, the literature that emphasizes the resilience of the welfare state tends to ignore these trends. Pierson and others seem to take the view that the growth of inequality and insecurity is only relevant to the extent that these societal trends are a direct result of spending cuts or reforms of the welfare state. In other words, they confine their discussion to the question of the extent to which the welfare state has become less redistributive or less effective in providing protection against market risks. This view fails to incorporate Esping-Andersen's (1990) crucial insight that the activities of the welfare state influences the way that labor markets operate. To use the language of public economics, the public provision of social welfare may affect not only the distribution of "disposable income" (post-tax, post-transfer income), but also the distribution of "primary income." Similarly, welfare-state activities may affect the rate of unemployment as well as the social implications of unemployment.

More importantly for our present purposes, the context of rising inequality and insecurity must be considered when we assess the significance of recent changes in the size and character of welfare states. For example, Swedish governments lowered the replacement rate of unemployment insurance from 90% to 75% in the first half of the 1990s. Had unemployment remained what it had been in the 1980s, these decisions might well have been described as a minor retrenchment of the welfare state. In the context of the dramatic increase of unemployment that occurred in the early 1990s, they take on a different significance.

It is commonplace to measure the distribution of income in terms of the ratio of income at the lower end of the 90th percentile (the lower end of the top 10% of income earners) to income at the upper end of the 10th percentile (the upper end of the bottom 10%). Referring to wage income among full-time employees, Table 1 summarizes trends in 90-10 ratios from the late 1970s to the mid-1990s in all OECD countries for which comparable data are available. For men and women combined, wage inequality has increased sharply in the Netherlands, the U.K. and the U.S. Most other countries have experienced moderate increases of both-gender wage inequality, but a handful of countries, most notably Germany, have bucked the general trend. The trend towards increased inequality becomes more pronounced when we take gender differentials out of the picture. For all but one country (Belgium), the 90-10 ratio for men has increased since the early 1980s and, in most countries, the increase of the 90-10 ratio for men has been significantly greater than the increase of the 90-10 ratio for both sexes. Generally speaking, rising within-gender inequality has partially been offset by the continuation of the reduction of gender differentials that began in the 1960s or 1970s (cf. OECD 1996a and Pontusson 1998).

Table 1. Wage dispersion among full-time employees, as measured by 90-10 ratios, 1979-1995.

	both sexes			men only		
	earliest	latest	% change	earliest	latest	% change
ASL	2.74 (79)	2.92 (95)	+6.6%	2.73 (79)	2.94 (95)	+7.7%
AUS	3.45 (80)	3.66 (94)	+6.1	2.64 (80)	2.72 (89)	+3.0
BEL	2.39 (86)	2.24 (93)	-6.3	1.94 (85)	1.90 (93)	-2.1
CAN	4.01 (81)	4.20 (94)	+4.7	3.46 (81)	3.77 (94)	+9.0
DEN	2.14 (80)	2.17 (90)	+1.4			
FIN	2.46 (80)	2.38 (94)	-3.3	2.44 (80)	2.53 (94)	+3.7
FRA	3.24 (79)	3.28 (95)	+1.2	3.39 (79)	3.43 (95)	+1.2
GER	2.69 (83)	2.32 (93)	-13.8	2.19 (83)	2.25 (93)	+2.7
ITA	2.94 (79)	2.80 (93)	-4.8	2.29 (79)	2.64 (93)	+15.3
JPN	3.01 (79)	3.02 (94)	+0.3	2.59 (79)	2.77 (94)	+6.9
NTH	2.21 (85)	2.59 (94)	+17.2	2.21 (85)	2.29 (94)	+3.6
NOR	2.06 (80)	1.98 (91)	-3.9			
NZL	2.89 (84)	4.04 (94)	-3.9	2.72 (84)	3.16 (94)	+16.2
SWE	2.04 (80)	2.13 (93)	+4.4	2.11 (80)	2.20 (93)	+4.3
SWI	2.72 (91)	2.72 (95)	0.0	2.44 (91)	2.54 (95)	+4.1
UKM	2.79 (79)	3.31 (95)	+18.6	2.45 (79)	3.24 (95)	+32.2
USA	4.75 (79)	5.40 (95)	+13.7	4.71 (79)	5.56 (95)	+18.0

Note: The 90-10 ratio is the ratio of earnings at the lower end of the 90th percentile (the lower end of the top 10% of wage earners) to earnings at the upper end of the 10th percentile (bottom 10%). The Belgian figures for men only refer to 80-10 rather than 90-10 ratios: thus they should only be compared to those of other countries in terms of change over time.

Source: U.S. figures from OECD (1993); all other figures from OECD (1996a).

The figures in Table 1 capture only part of the tendency for market forces to generate more inequality since 1980. Several other considerations must be introduced to complete the picture. First, disparities of income from capital have undoubtedly reinforced the effects of these trends in the distribution of wage income. Secondly, the individual-level trends shown in Table 1 have likely been magnified by the pooling of wage income within families. For the U.S., Gary Burtless (1996) shows that the correlation between the incomes of spouses has increased very significantly (i.e., well-paid men are increasingly likely to be married to well-paid women) and that this development accounts for a large part of the growth of household inequality.

Thirdly, the figures presented in Table 1 understate the rise of inequality because they are restricted to full-time employees. In virtually all OECD countries, the incidence of part-time employment increased from 1983 to 1993 and in ten countries it increased by more than half (see OECD 1997:177). Typically, part-time employees earn less than full-time employees on an hourly basis and enjoy fewer benefits and, since part-time employment is heavily concentrated among women, its expansion requires us to qualify the proposition that pay differentials based on gender have continued to decline through the 1980s. It is not clear that this proposition still holds when we add part-timers to the picture. Finally, data on the distribution of income from employment fail to capture the impact of unemployment. Because unemployment tends to be concentrated among unskilled, low-paid workers, it correlates negatively with wage inequality as measured in Table 1 (Rueda and Pontusson 1997). As the rate of unemployment increases, low-paid workers disappear from the population used to calculate 90-10 ratios and the wage distribution becomes more compressed. Obviously, this does not mean that unemployment promotes social equality. Being concentrated among low-paid workers and invariably associated with income loss, unemployment is perhaps the most important source of the new inequality in advanced capitalist societies.

The incidence of poverty provides another obvious indicator of social inequality and insecurity. In the U.S., the percentage of the population below the poverty line fell from 22% in 1960 to less than 12% in 1973-79, and then began to rise, reaching 16-17% in the early 1990s (Blank 1997:55). From a comparative perspective, the rate of poverty in the U.S. is uniquely high, but the fact that the percentage of the population receiving some form of means-tested social assistance increased in all but three OECD countries from 1980 to 1992 suggests that a general tendency for poverty to rise emerged in this period (Gough et al 1997:24-27).[4] The pervasiveness of recent inegalitarian trends is indeed striking, especially in view of the strong tendency among students of comparative political economy to emphasize national diversity. We hasten to add that common trends do not necessarily add up to cross-national convergence, for convergence requires that the most egalitarian countries experience the most rapid growth of wage inequality, poverty, etc. (cf. Iversen and Pontusson 1998). Except possibly for unemployment, this does not appear to have been the case.

Labor economists typically explain the trend towards increased wage inequality in terms of some combination of structural unemployment, immigration, trade with low-wage countries, technology-driven shifts in demand for labor, and the slower growth of higher education (see Gottschalk and Smeeding 1997). Changes in labor-market institutions--deunionization and employer-initiated decentralization of wage bargaining--have also played an important role in the growth of wage inequality since 1980s (Pontusson 1998, Rueda and Pontusson 1997). In the first instance, the growth of market inequality should be seen as exogenous to welfare-state restructuring. Yet it is highly relevant to our assessment of what has happened to advanced welfare states in recent years. While the redistributive effects of taxation and welfare spending were broadly consistent with labor market trends in the 1960s, labor market conditions changed profoundly in the wake of the international recessions of the 1970s. To maintain the disposable income distribution that had been achieved by the late 1970s, a significant expansion of redistributive welfare state activities would have had to occur in the 1980s.

The Size of the Welfare State

For the four countries which he chooses to survey (Germany, Sweden, the U.K. and the U.S.), Pierson (1990:158-159) presents aggregate OECD statistics on the evolution of (a) social security transfers as a percentage of GDP, (b) total government outlays as a percentage of GDP, and (c) government employment as a percentage of total employment. In Pierson's words, the quantitative data he presents show "a surprisingly high level of continuity and stability... for none of the countries does the evidence reveal a sharp curtailment of the public sector" (cf. also Esping-Andersen 1996a:10-11). This is indeed a judicious assessment of the data presented, but the data are problematic on several counts. In what follows, we propose some alternative measure of the size of the welfare state and present an overview of recent trends in Pierson's four countries that is, we think, more informative than the one that Pierson presents.[5]

There are four data-related problems with Pierson's quantitative analysis. First, none of his measures capture what is commonly meant by the "welfare state." As defined by the OECD, "social security transfers" include most transfers to individuals (or households) other than public unemployment and health insurance benefits. This, then, leaves out the service components of the welfare state. On the other hand, "total government outlays" include the full range of state activities, many of which have little to do with the provision of social welfare. Secondly, two of Pierson's three time series end in 1990 and thus do not capture more recent trends. Thirdly, the use of GDP as the denominator of government spending measures (conventional practice among comparative political economists) makes it difficult to interpret cahnge over time. In the time series presented by Pierson, two things are changing--the amount of money spent by the government and the size of GDP--and it is impossible to separate one from the other.

Finally, Pierson's quantitative analysis does not take into account socio-economic and demographic changes. Since the 1970s, the number of welfare-state claimants has increased in all OECD countries as a result of mass unemployment, rising poverty and population aging. At any given level of entitlement provisions, an increase in the number of unemployed, poor or retired people automatically generates an increase of social spending by the government. Indeed, increased spending might be associated with a reduction of entitlements. To use government spending as a proxy for "welfare effort," we must somehow control for these demographic variables (cf. Stephens, Huber and Ray 1996, and Cusack 1997).

Providing data on total social spending, an as-yet-unpublished OECD paper (OECD 1996c) enables us to address the first of the problems mentioned above. However, this data set ends in 1993, and so the problem of datedness remains. In Tables 2A-D, we eliminate the GDP denominator problem by expressing total social spending and social security transfers in terms of constant US dollars (at 1990 prices and exchange rates) and take societal needs into account by relating these figures to the number of welfare-state claimants. There are three readily-measurable categories of welfare-state claimants: (a) retired people (here defined as people above the age of 65); (b) unemployed people; and (c) recipients of means-tested social assistance. Summing these three categories to arrive at an estimate of the total population of welfare-state claimants involves some "double-counting," for retired and unemployed people may also be recicipients of social assistance. On the other hand, there are obviously people who need public support and often do receive public support without falling into any one of these three categories.

Table 2. Absolute levels of social spending (millions), spending per welfare claimant and GDP per capita in US$ at 1990 prices and exchange rates.

a) Sweden:

	1967	1979	1980	1992	% change 1967-79	% change 1980-92
total social spending	20.0	46.6	57.3	83.0	+133.0	+44.9
social security transfers	13.5	32.6	33.0	52.4	+141.5	+58.8
total per claimant (a+b)	18,018	32,702	39,764	46,919	+81.5	+18.0
total per claimant (a+b+c)			32,173	35,199		+9.4
transfers per claimant (b+c)			19,469	24,682		+26.8
GDP per capita	16,980	22,332	22,657	25,838	+31.5	+14.0

b) West Germany:

	1968		1980	1992	% change 1968-80	% change 1980-92
total social spending	180.6		328.1	473.6	+81.7	+44.3
social security transfers	120.3		215.1	257.1	+78.8	+19.5
total per claimant (a+b)	22,340		31,433	39,990	+40.7	+27.2
total per claimant (a+b+c)			25,555	29,218		+14.3
transfers per claimant (b+c)			18,009	18,202		+1.1
GDP per capita	14,586		21,046	27,060	+44.3	+28.6

c) United Kingdom:

	1968		1980	1992	% change 1968-80	% change 1980-92
total social spending	70.1		137.1	216.9	+95.6	+58.0
social security transfers	51.6		83.9	137.0	+62.6	+63.3
total per claimant (a+b)	9,396		13,857	18,327	+47.6	+32.2
total per claimant (a+b+c)			9,303	10,473		+12.5
transfers per claimant (b+c)			6,340	7,594		+19.8
GDP per capita	10,714		13,308	16,400	+24.2	+23.2

d) United States:

	1968		1980	1992	% change 1968-80	% change 1980-92
total social spending	286.5		542.5	868.7	+89.5	+60.1
social security transfers	201.5		454.2	731.8	+125.4	+61.1
total per claimant (a+b)	12,963		16,274	20,899	+25.5	+28.4
total per claimant (a+b+c)			7,724	10,070		+30.4
transfers per claimant (b+c)			7,252	9,519		+31.3
GDP per capita	15,685		18,464	21,873	+17.7	+18.5

Categories of claimants:
a = unemployed;
b = aged 65+;
c = social assistance recipients.

Sources:
total social spending as % of GDP: OECD (1996c);
social security transfers as % of GDP: OECD (1996b);
GDP in US$ at 1990 prices and exchange rates: OECD (1996d);
size of population, % aged and size of labor force: OECD (1994a);
unemployment rate: OECD (1996b);
social assistance recipients as % of population: Gough et al (1997).

In Tables 2A-D, we present two measures of total social spending per welfare-state claimant: one for the sum of all three categories of claimants (a+b+c) and one for the sum of unemployed and retired people only (a+b). We do this in recognition of the double-counting problem, but also so as to be able to compare the growth of spending from 1980 to 1992 with the preceding twelve years. (1980 and 1992 are the only two years for which we have data enabling us to calculate the number of social assistance recipients). As social security transfers do not include unemployment insurance benefits, our per-claimant measure of this type of social spending is based on the sum of retired people and social assistance recipients (b+c).

When social assistance recipients are included in our estimate of the population of welfare-state claimants, we find that total social spending per claimant increased very little in real terms from 1980 to 1992 in Germany, Sweden and the U.K. Germany registered the highest increase of these countries (14.5%), corresponding to a growth rate of slightly more than 1% per year. In Germany and the U.K., the increase of total social spending per claimant was less than half the increase of real GDP per capita over this period. In Sweden, total social spending per claimant held up better relative to GDP per capita, but only because the growth of GDP per capita was more sluggish. When social assistance recipients are not included in our estimate of the population of welfare-state claimants, we observe a much greater increase of total spending per claimant from 1980 to 1992 in all three countries (greater than the increase of GDP per capita in both Germany and Sweden). However, the increase over the preceding twelve years (1968-80) was much greater still by this measure, especially in the Swedish case.[6] Comparing the change in absolute levels of social spending (rather than spending per claimant) from 1980 to 1992 with the change from 1968 to 1992, we also observe a sharp deceleration of welfare-state expansion in the 1980s.

On a year-by-year basis, the deceleration of social spending per claimant might very well take the form of a downward trend from the mid-1980s onwards. Be that as it may, the figures for Germany, Sweden and the U.K. in Tables 2A-C call into question the way that Pierson seems to conflate "continuity" with "stability." Clearly, there has been no decline of social spending in these countries and thus we might say that spending patterns have been stable, but discontinuity (from the 1970s to 1980s) is a prominent feature of these patterns.

The U.S. experience (Table 2D) stands out as quite exceptional. Whether or not social assistance recipients are included, social spending per claimant increased much more rapidly from 1980 to 1992 in the U.S. than in any of the European countries. Moreover, the deceleration of social spending growth in the 1980s is less pronounced in the U.S. case. On a per-claimant basis, the growth of total social spending was actually greater from 1980 to 1992 than from 1968 to 1980. As the real value of the benefits provided by social assistance programs, such as Food Stamps and AFDC, declined and eligibility for these programs was restricted in the 1980s (Alber 1996), the rapid growth of spending per claimant in the U.S. primarily reflects the costs of Social Security, Medicare and Medicaid. The distinctiveness of the U.S. experience also reflects the fact that U.S. unemployment was exceptionally high around 1980, and comparatively low around 1992.

Except in the case of Germany, government spending on social security grew more rapidly than total social spending from 1980 to 1992. As overall spending has slowed down while the costs of social assistance and social security entitlements have continued to grow, the service components of the welfare state have tended to be squeezed. For the larger set of seventeen OECD countries, the data on the real growth of final government expenditures in Table 3 corroborates this story. "Final government consumption expenditure" refers to the costs of goods and services produced by the public sector. Like total government outlays, this measure encompasses a range of government activities that have little or nothing to do with the provision of social welfare, but it speaks more directly to the size of the "public sector" (in the narrow and conventional sense of this term). In all but two countries, the average growth rate of real government final consumption in was lower in 1973-79 than in 1960-73 and, again, in all but two countries, the average rate in 1979-89 was lower than in 1973-79. In a handful of countries, the growth of government final consumption rose in the early 1990s, but all of these countries had comparatively low growth rates in the 1980s. For every single country, the growth rate of 1989-94 was lower than that of 1973-79 as well as 1960-73.

Table 3. Average annual rate of growth of real government final consumption expenditure, 1960-94.

	1960-73	1973-79	1979-89	1989-94
ASL	5.8	4.9	3.4	2.8
AUS	3.2	3.9	1.5	2.3
BEL	5.5	3.7	0.5	0.9
CAN	6.1	3.5	2.5	1.1
DEN	5.8	4.1	1.5	0.8
FIN	5.4	4.8	3.5	-0.1
FRA	4.0	3.4	2.3	2.6
GER	4.5	3.0	1.3	1.7
ITA	4.0	2.7	2.6	0.9
JPN	5.8	4.8	2.7	2.1
NTH	2.8	3.5	2.0	1.2
NZL	3.6	3.2	1.2	-0.2
NOR	5.9	5.3	3.5	3.1
SWE	4.9	3.7	1.6	0.9
SWI	5.3	1.4	2.7	1.1
UKM	2.7	1.8	1.0	1.5
USA	2.5	1.7	2.7	0.1
OECD total	3.6	2.8	2.4	1.2
OECD-Europe	4.0	3.2	2.1	1.8

Source: OECD (1996b).

As suggested by Pierson, the size of the public sector might also be measured in terms of employment. Again, we must beware of the denominator problem here: from 1990 to 1994, the public-sector labor force in Sweden declined by nearly 12%, but total employment declined even more, and so government employment as a percentage of total employment actually increased slightly. For our seventeen countries, Table 4 tracks the evolution of the public-sector labor force, measured in absolute terms (people) rather than relative terms (percentage of total employment). For nine of these countries, the continuous deceleration story of Table 3 here becomes a story of outright shrinkage of the public sector. Most remarkably, the size of the public-sector labor force declined by nearly 30% in the U.K. from 1988 to 1994. (As state-owned corporations are not included in the OECD measure of government employment, privatization accounts for only part of this shrinkage).

Table 4. The size of the public-sector labor force, 1960-94.

	government employees (in 000s)			% change fr. peak to 1994	average annual % change			
	1980	peak	1994		1960-73	1973-79	1979-89	1989-94
ASL	1,604	1,843 (87)	1,661	-9.9%	3.0	2.6	0.9	-1.6
AUS	596		837		2.3	3.4	1.9	2.7
BEL	701	755 (86)	730	-3.3	2.1	3.3	0.7	-0.5
CAN	2,027		2,646			2.0	2.3	1.8
DEN	708	812 (90)	792	-2.5		4.8	1.7	-0.4
FIN	398	550 (91)	514	-6.5	4.6	4.8	2.7	-1.2
FRA	3,395		5,426			2.8	1.7	1.4
GER	3,843	4,329 (92)	4,307	-0.5	3.7	2.3	1.0	0.2
ITA	3,151	3,415 (92)	3,374	-1.2		2.7	1.4	0.0
JPN	3,654		3,807		2.5	1.9	0.2	0.4
NTH	756	858 (90)	835	-2.7	1.7	2.3	0.5	-0.8
NZL					2.3	2.5		
NOR	419		613			5.4	2.5	2.6
SWE	1,299	1,425 (90)	1,256	-11.9	5.6	4.9	1.3	-2.1
SWI	323		424		3.8	2.8	1.6	1.8
UKM	5,210	5,328 (88)	3,789	-28.9	1.7	1.5	-0.2	-6.1
USA	16,732		18,049		2.7	1.5	1.2	1.2
OECD total					2.7	2.2	1.1	0.1
OECD-Europe					2.6	2.6	1.2	-0.7

Source: OECD (1996b).

Given that only some government employees are engaged in the activities that we associate with the welfare state, to what extent do the employment cuts documented in Table 4 pertain to the public provision of social welfare? As far as Sweden is concerned, there is no evidence to suggests that welfare activities have been spared from employment cuts. Quite the contrary, employment in public health and hospitals fell by 7% and employment in care for children and the elderly fell by 10%, while employment in education and defense each fell by 4% from 1990 to 1993 (Ringqvist 1996:111-113). As Table 5 shows, the shrinkage of the public-sector labor force has been highly differentiated in the British case. The largest employment cuts by far have been sustained by central government agencies other than the NHS and the military, and the number of people employment by local government authorities in social services actually increased from 1985 to 1994 (along with the number of people employed in the police forces). All of this might be taken as evidence that overall employment data overstate the extent of welfare-state shrinkage. On the other hand, the category "other central government" encompasses some welfare activities, and employment in both education and the NHS did shrink significantly over this period.

Table 5. Government employment (000's of full-time equivalents) in the U.K., 1985 and 1994.

	1985	1994	% change
central government			
armed forces	326	250	-23.3%
NHS	1,030	951	-7.7
other	2,144	1,087	-49.3
local government			
education	1,027	818	-20.4
social services	256	288	+12.4
construction	125	86	-31.2
police	182	201	+10.4
other	741	662	-10.7
total	5,831	4,343	-25.5

Source: Hughes 1995: 18.

It may be that public-sector productivity growth, notoriously difficult to measure, has made it possible to provide the same level of services with fewer employees, but it is hard to believe that labor force reductions of the scale that we observe in Australia, Finland and Sweden, let alone the U.K., do not translate into less public welfare provision. And, again, increased societal needs must be taken into account. In view of the societal changes identified earlier, the figures presented in Tables 4 and 5 would appear to represent a broad-based reduction of service-based welfare effort.

Stephens, Huber and Ray (1996) suggest that the deceleration of government spending growth might be viewed, in part, as a result of the maturation of welfare state--the fact that they now provide for basic needs and have perhaps also reached the limits of politically acceptable taxation. Clearly, the growth of government spending as a percentage of GDP must inevitably slow down over time. However, there is hardly any correlation, on a cross-national basis, between annual growth of the public-sector labor force in 1989-94 and 1990 levels of government employment, measured as a percentage of total employment (r=-.142). The correlation of annual growth rates of final government consumption in 1979-89 and 1985 levels is also weak (r=-.226). In explaining the deceleration of public-sector expansion in the 1980s, economic and possibly political developments that are exogenous to the process of public sector expansion, and yet affect all OECD countries, must be taken into account. It is not the case that countries with large public sectors have experienced more deceleration (or greater public-sector cutbacks) than other countries.

Assessing Entitlement Changes

Pierson begins *Dismantling the welfare state?* (1994:13-17) by distinguishing between "programmatic" and "systemic" retrenchment (pp. . While systemic retrenchment entails long-term changes in the political environment which make the welfare state vulnerable to future attacks, programmatic retrenchment includes reductions in spending or benefit levels and tightening eligibility requirements. Programmatic retrenchment also seems to include shifting to means tests to determine eligibility, and increasing the role of the private sector. Clearly, the extent of programmatic retrenchment cannot be gauged from aggregate measures of government spending alone. As Pierson (1996:159) notes, "major changes in the spending for particular programs could be occurring within these broad categories," and " policy reforms could have imposed lagged cutbacks that do not [yet] show up in spending figures."

In this section, we review and update Pierson's four case studies. We argue that Pierson's own account of British social policy developments belies his claim that the Thatcher governments of the 1980s failed to achieve a significant rollback of the welfare state. For the 1980s, the other cases support Pierson's emphasis on welfare-state resilience. However, the benefits provided by social assistance programs deteriorated steadily in the U.S. and, more recently, these programs have been dismantled or profoundly restructured. In the Swedish case and, to a lesser extent, the German case as well, the politics of austerity in the 1990s have been accompanied by benefit cutbacks and programmatic reforms.

Pierson's account of programmatic retrenchment in the U.K. focuses on three primary issue areas--pensions, income support, and housing--but also encompasses two supplemental issue areas--sickness/disability support and health care. Summarizing his analysis, Pierson (1994:142-146) characterizes retrenchment in pensions and housing as "high," retrenchment in income support programs and health care as "low," and retrenchment in sickness/disability benefits as "low/moderate." Thus the Thatcher regime apparently achieved significant retrenchment in only two of the five areas of welfare state provision on which Pierson reports. However, the criteria behind this coding of retrenchment outcomes are not spelled out very clearly, and the coding strikes us as dubious in several instances (cf. Alber 1996).

In particular, Pierson's characterization of retrenchment in British income support seems to have little to do with the actual level of benefits across the types of transfers that he covers. Pierson acknowledges that the income replacement provided by public unemployment insurance was sharply reduced and eligibility for unemployment benefits was restricted in 1980s. Also, he acknowledges that the real value of the universal child benefit fell by 14% from 1979 to 89 as a result of government decisions not provide for full indexation (Pierson 1994:109). Pierson suggests the expansion of the means-tested Family Credit, an income supplement to the working poor, offset cuts in other areas of income support, but in the context of mass unemployment, it seems reasonable discount the impact of work-based benefits in offsetting cuts in support for children, the unemployed and the poor. Moreover, the expansion of the Family Credit allowance constitutes a shift in resources toward a means tested program, which fits one of Pierson's criteria for programmatic retrenchment.

Pierson is correct to point out that public health care spending has steadily increased in real terms since 1981 and that the 1990 reform of the NHS preserved publicly financed care. There is a lot more to the story of health care, however. Most informed observers believe that, despite real growth, NHS spending fell well short of increases in demand for health care in the 1980s, resulting in substantial shortages of care in some parts of the country. While fees and charges in the NHS increased from 1.9% of total spending in 1979 to 3.2% in 1994, the role of private enterprise within the health care sector increased considerably under Thatcher and Major. To be discussed further below, the introduction of market mechanisms into the NHS has been associated with a sharp increase in transactions costs: management staff increased from 6,091 in 1990 to 20,478 in 1993 (Winchester and Bach 1995:307). This combination of underfunding, increased fees, distorted priorities, and creeping privatization warrants a less sanguine assessment.

Turning to the U.S. experience, the absence of any significant cuts in social security and Medicare benefits lends support to the resilience thesis, but Pierson's characterization of income support as an instance of low retrenchment is again questionable. Jens Alber's (1996) analysis shows that the maximum Food Stamps benefit stagnated in real terms and fell in relation to earnings during the Reagan and Bush years. Alber also shows that the percentage of poor households receiving AFDC benefits fell sharply in the early 1980's and never regained its previous levels. With state governments setting the "standard of need" that determined eligibility for AFDC benefits, the standard of need for a family of three fell, in the median state, from 90% of the poverty line in 1970 to 59% in 1992. At the same time, the maximum benefit for such a family fell from 67% to 36% of the poverty line (Alber 1996).

The drive to reduce anti-poverty spending in the U.S. was capped by the welfare reform signed by President Clinton in July, 1996. This bill cut Food Stamp benefits by $24 billion, denied immigrants eligibility for Food Stamps, restricted social security eligibility for disabled immigrants and children, and cut federal funding for social services and child nutrition programs. Most importantly, however, it replaced AFDC with block grants to the states, with no minimum requirements pertaining to either eligibility or benefit levels, but mandating a five-year lifetime limit on receipt of benefits and requiring 50% of each state's caseload to be working for benefits by 2002. Cushioned by economic growth, the distributive consequences of this reform are still considerably. At the time that the reform was passed, the Urban Institute estimated that it would result in some income loss for 11 million families, and move 2.6 million people, including 1.1 million children, into poverty (Edelman 1997:46).

Pierson's overall assessment of the U.S. case must surely be qualified in light the 1996 welfare reform. At the same time, resilience remains a conspicuous feature of more universalistic welfare programs ("middle-class entitlements") in the U.S. By contrast, the benefit cuts introduced by Swedish governments since 1990 have been spread more or less evenly across the entire range of entitlement programs. In Sweden, like many other countries, government efforts to reduce the fiscal burden of welfare programs initially took the form of changes in the system of indexation, loosening the linkage between welfare benefits, on the one hand, and consumer prices and market wages, on the other, but savings realized through this mechanism proved insufficient. Through a series of piecemeal changes, which began before the bourgeois parties came to power in 1991, the replacement levels provided by the system of sick pay insurance were reduced from 90% to 75-80% of wages. In addition, the bourgeois parties cut the replacement rate of unemployment insurance from 90% to 80%, and introduced waiting days for unemployment benefits as well as sick pay.

While the replacement rates of parental leave insurance have been similarly cut, the general child allowance was reduced by 15% in 1995. Needs-based housing subsidies and supplementary allowances for families with more than one child have also been cut (Ringqvist 1996 and Stephens 1996).

As of 1993, the funding of public health care is being partially shifted onto employee-paid payroll taxes. At the same time, fees charged for doctor's visits and co-payments for medications have increased sharply over the last 10 years. Also, the sick pay reform of 1991 shifted responsibility for the first fourteen days of sick pay to employers, creating an incentive for employers to reduce absenteeism by improving the workplace environment and/or by monitoring employees to prevent abuse of sick pay provisions. In Esping-Andersen's (1990) analytical framework, this reform, which reinforces workers' dependence on their employers, must be considered a step in the direction of "recommodification." Probably of greater long-term significance, the principles of pension reform agreed by the major political parties prior to the 1994 election provides for shifting the financing of the supplementary pension system (ATP) towards employee contributions (the current system being based entirely on employer contributions) and the introduction of privately-managed individual retirements accounts (to receive 2% of total contributions).

Of the four countries surveyed by Pierson, Germany provides the strongest and most consistent support for his emphasis on welfare-state resilience, but even here some qualifications might be in order. Like the Swedish welfare state, the German welfare state remained intact through the 1980s. As Alber (1996) shows, the real value of both pension benefits and social assistance grants fell in the late 1970's and early 1980's; yet each program subsequently recovered lost ground and, in marked contrast to U.S. income-support programs, benefit levels grew in line with average earnings from the mid- 1980's through the mid-1990's. The process of German unification initially served to boost social spending, but its long-term fiscal consequences, combined with the Maastricht criteria for monetary union, precipitated the adoption of a series of austerity measures in 1994-96, entailing significant cutbacks in welfare entitlements (see Mushaben 1997).

The Changing Composition of Social Spending

From the analytical perspective of most of the welfare state literature, summing up changes in individual social programs hardly provides an adequate basis for assessing the extent to which welfare states have changed, for this literature is centrally concerned with relations among social programs or, in other words, the overall configuration of welfare states. One interpretation of Esping-Andersen's (1990) work holds that all welfare states consist of three basic components--a universalistic component providing benefits as a matter of citizen rights, a social insurance component linking benefits to employment, and a means-tested social assistance component--and welfare-state types are essentially distinguished from each other by the relative weight that they assign to these three components. The question becomes whether significant shifts in the mix of welfare-state components has occurred over the last 15-20 years. Showing the distribution of total social spending by type of spending in 1980 and 1992, Table 6 represents a first stab at this question.

Table 6. The distribution of social spending by type: Sweden, Germany, the U.K. and the U.S., 1970-94.

		health	social services	social sec. transfers	social assist. grants
SWEDEN	1980 1993	27.7% 15.9	13.0% 16.4	9.9% 13.1	49.4% 54.6
GERMANY	1980 1993	25.4 26.8	3.3 3.1	12.0 10.9	59.3 59.2
U.K	1980 1993	28.4 25.9	5.9 4.7	19.5 28.4	46.3 41.0
USA	1980 1993	25.5 31.5	3.1 1.8	20.7 21.8	50.7 44.9

Sources:
Health expenditures: OECD (1994b, 1996c);
Social services and total transfers: OECD (1996c);
Social assistance: OECD (1996e).

In the Swedish and British cases alike, we observe two important changes: first, a shift of social spending from services to transfer payments and, secondly, a shift of spending on transfers from social insurance schemes to social assistance. The former shift is particularly pronounced in the Swedish case, and the latter is most pronounced in the British case. In the case of the U.S., we observe that the relative importance of public health spending rose at the expense of social insurance, confirming that rising health-care costs has been a major factor behind the continued growth of social spending. In a European context, the increased relative importance of health spending would represent an increase in the "service intensity" of the welfare state, but in the U.S., of course, public health spending primarily takes the form of transfer payments. Consistent with our earlier discussion, Germany stands out in Table 6 as a case of remarkable stability.

It should be noted that the spending figures in Table 6 do not fit Esping-Andersen's conceptual categories perfectly. While transfer payments may be provided on a universalistic basis rather than being tied to employment, services may be provided on a means-tested basis. Recognizing the limitations of the such aggregate data, Table 6 lends at least some support to the idea that the Swedish welfare state has become institutionally more like the German welfare state, and the British welfare state has become more like the American welfare state (cf. Iversen and Pontusson 1997). Based on this limited sample of OECD countries, it would appear that universalistic service-based welfare states have undergone more far-reaching changes than social-insurance or residualist welfare states. Yet the trajectory of change in the Swedish and British cases is clearly different, suggesting that partisan politics still matter.

Reforms of the Public Sector

Exemplified by Pierson's work, the literature on welfare-state retrenchment tends to focus on the extent to which entitlements have be been cut and, by extension, on transfer programs rather than welfare state activities that involve the direct provision of services. With respect to services, entitlements are typically less clear-cut and less clearly articulated. Since the Second World War, British citizens have been entitled to free health care, but the precise meaning of this entitlement--the quality of the health care provided by the state--has changed significantly over time. The emphasis on entitlements/transfers in the existing literature is closely related to the emphasis on welfare-state resilience, for in most countries government spending on social security transfers has grown more rapidly than final consumption spending since the late 1970s.

So far, our discussion of the public sector has focused on quantitative measures of its size. Before we conclude, a qualitative dimension must be added to our treatment of this question. Across the OECD area, we observe important changes in the organization of the public sector and how it delivers services to its "customers" over the last decade or so. In this section, we briefly review public-sector reforms in Sweden and the U.K., and address their distributive implications. It should be noted at the outset that in neither of these cases have public-sector reforms specifically targeted welfare activities. Rather, organizational changes within health care, elderly care, social work, etc. have been part of a broader process of restructuring the public sector. In this area, as in many others, it is difficult to discuss "the welfare state" in isolation, as if it were a detachable appendix of "the modern state."

In Sweden, the social democrats established a new ministry (Civildepartementet) to oversee public-sector reform in the early 1980s. The original goal of this effort was to improve the delivery of public services by reducing bureaucracy, granting local providers considerable autonomy and increasing popular participation (Premfors 1991; cf. also Fudge and Gustafsson 1989). Since the late 1980's, however, public-sector reform has emphasized cost reduction and encouraged private-sector competition in some areas. In both phases of public-sector reform, increased autonomy for administrative agencies and local governments has been accompanied by new forms of accountability to the central government, which has increasingly stipulated desired outputs and budgetary constraints, but left managers to determine how to deploy the organization's resources. To encourage long term improvements in efficiency, the government also began to allow unit managers to retain an share of user fees in the 1980s. Exemplifying a general trend among OECD countries, the administrative mechanisms of the Swedish welfare state increasingly mimic those of private corporations (cf. Schwartz 1995).

The Postal Service and several other "commercial state agencies" (affärsverk), relying on fees as their primary source of income, were reconstituted as state-owned corporations in 1985-95 and thus moved off the government budget altogether. As commercial state agencies and state-owned corporations alike undertook extensive rationalization measures and a number of state-owned corporations were privatized, employment in the state enterprise sector fell from 330,000 in 1980 to 210,000 in 1994 (Ringqvist 1996:78). The social democratic approach to privatization clearly excluded welfare-related services, but during the bourgeois coalition government of 1991, a number of legislative measures were enacted that promoted private alternatives to state-provided services, and these measures were not reversed when the social democrats returned to power in 1994. While state subsidies are now available for private childcare and education on a restricted basis, the so-called "house doctor" system has introduced an element of private practice into health care. From 1988 to 1994, private employment increased from 1% to 5% in child care, and from 6% to 7% in health care (Ringqvist 1996:106).

Swedish privatization has been strictly limited by comparison to the British case. In the U.K., the labor force of nationalized industry fell from 1.8 million in 1979 to less half a million in 1997 (Colling and Ferner 1995:493). The introduction market mechanisms into the realm of publicly financed social services and the promotion of private-sector competition has also been quite comprehensive. In contrast to Sweden, the effort to shrink and marketize the state led Britain's conservative governments to increase central government control over local governments and other units. At the same time, the civil service has been subject to a series of reforms intended to reduce staffing levels, to increase managerial flexibility, and to make departmental "cost centers" more responsible for financial performance. These reforms culminated in the Next Steps program, which moved executive functions out of the ministries into agencies with clear targets and responsibilities (Winchester and Bach 1995:311-312).

Of more immediate relevance to our present concerns, the Tories introduced market principles into the National Health Service and the state education system for England and Wales in the late 1980s. In both fields of production, authority for budgetary and personnel decisions were devolved to unit-level managers. NHS hospitals were converted to "trusts" and now have the status of public corporations, with the ability to borrow independently for capital expenditure and to retain operating surpluses. General practitioners may now opt out of the NHS and establishing a fund-holding practice to which the central government allocates a budget. Fund-holding GP's, hospital trusts, and health authorities are expected to contract independently for the services they require (Winchester and Bach 1995:312-314). Schools have also been given the possibility of opting out of local government control to become Grant Maintained, receiving funding directly from the central government. While school principals have gained responsibility for personnel and budgetary decisions, parents have gained the right to choose schools for their children. School and hospital budgets are now largely determined by the number of students and patients they attract, increasing the incentives for unit managers to economize on costs.

The Tories also sought to increase private provision of education and health services by subsidizing private school tuition and private health insurance premiums. From 1979 to 1991, the number of private health insurance policy holders increased from 1 million to 3 million (The Economist, June 6, 1992). By compelling unit level managers to subject stipulated contracts to an open bidding procedure referred to as Compulsory Competitive Tendering, the government also encouraged private competition in hospital cleaning, catering and laundry services as well as local government services. While private spending increased from 5.1% to 10.1% of total health care spending, private employment increased from 15.9% to 39.6% of total health care employment over the period 1979-1994. In education, private spending increased from 7.4% to 12.9% and private employment from 7.3% to 38.2% over the same period (Hills 1995:31, CSO 1995:17).

In Sweden and the U.K. alike, public-sector restructuring has involved a sustained effort to decentralize wage-setting mechanisms within the public sector so as to allow unit managers to respond more effectively to local labor market conditions and to incorporate productivity-enhancing incentives into their pay systems.[7] More or less explicitly, governments in both countries have also sought to hold back public-sector wages relative to private-sector wages. The significance of the decentralization of wage-setting within the public sector should be seen against the background that, in both countries, public-sector wage bargaining took on a particularly solidaristic cast from the late 1960s onwards. With public-sector wage compression putting pressure on private employers to raise the relative wages of unskilled workers, especially women, the expansion of public-sector employment contributed to the decline of overall wage inequality in this period (Pontusson 1998, Rueda and Pontusson, 1997).

As Table 7 indicates, aggregate wage dispersion remained more or less constant in the British public sector while it rose steadily in the private sector from 1984 to 1995. However, significant dispersion occurred among both men and women working in the public sector. In the course of the 1980s, the dynamics of public-sector wage setting became distinctly less solidaristic, and there is every reason to believe that this change is, in part, attributable to market-oriented reforms. At the same time, of course, public-sector employment cutbacks and privatization have served to shift labor from the public sector (with more compressed wage differentials) to the private sector (with less compressed wage differentials). More fragmentary data published by the OECD (1995:48) indicates that public-sector wage differentials in Sweden increased as well in the early 1990s. Arguably, then, the welfare state has not only failed to keep up with rising market inequality in recent years: welfare-state restructuring has itself been a source of rising market inequality.

Table 7. Wage dispersion (90-10 ratios) among public and private employees in the U.K., 1978-1995.

	1978	1985	1995
men			
public	2.28	2.60	2.80
private	2.41	2.98	3.44
women			
public	2.28	2.40	2.58
private	2.20	2.40	3.05
both sexes			
public		2.75	2.72
private		3.21	3.66

Note: see Table 1 for an explanation of 90-10 ratios.

Source: New earnings survey (various editions).

The question of how market-oriented reforms of the public sector have affected quality of services and equality of access is of central importance, but there is very little systematic evidence on this score and it is virtually impossible to separate the effects of marketization from the effects of cutbacks. While consumer choice has been the focus of much of the rhetoric in support of public-sector reforms, critics of Thatcherism argue that marketization has undermined universal access to high quality services by generating both regional and status tiers within the welfare state. The fact that an increasing number of middle-class Britons rely on private alternatives to free public services is indicative of quality deterioration and, at the same time, a source of inequality. According to the well-respected King's Fund Institute, patients of fundholding GP's routinely receive preferential treatment in the NHS system (McKie 1994:95-97).

Conclusion

Though citizens' willingness to pay taxes obviously vary depending on political circumstances, there is surely something to the idea that the overall level of taxation has reached its upper limits in many OECD countries. At the same time, the combination of sluggish productivity growth and mass unemployment since the late 1970s has meant that government revenues at a given rate of taxation have grown more slowly than they did in the 1950s and 1960s, and the internationalization of financial markets has increased the costs associated with deficit spending. Together, these factors have put downward pressure on overall government spending.

The evidence presented above suggests that, generally speaking, government consumption and employment have been more affected than entitlement programs by the new fiscal constraints. The fact that some welfare states have become less service-oriented can partly be explained in terms of demographic changes and the maturation of social insurance systems (specifically, the extension of full pension benefits to all retired people). Typically, final government consumption expenditure continued to grow through the 1980s, it simply grew less rapidly than spending on social security transfers. However, it would also appear to be the case that governments have preferred cutting the public sector over cutting entitlement programs, and it is first and foremost the service components of welfare states that have been reformed according to market principles. This pattern of retrenchment and restructuring does not seem to sit well with Pierson's assessment of the political risks entailed when politicians challenged entrenched interests, following from the common public choice argument that concentrated interests generally prevail over diffuse interests, for public-sector employees constitute the entrenched pro-welfare constituency par excellence.

What, then, accounts for the "anti-service bias" of welfare state retrenchment? Several arguments seem plausible. Consistent with Pierson's emphasis on the politics of blame avoidance, one might argue that the effects of cutting the public sector are less immediate and less tangible (or less visible) than the effects of cutting entitlement programs. Public-sector cutbacks will likely result in quality deterioration and this might in turn result in "middle-class opt-out," but quality deterioration will not necessarily be proportionate to spending cuts and no one knows at which point "middle-class opt-out" becomes a serious problem. Even social democratic politicians are likely to find the risks involved here more palatable than those involved in cutting pension or unemployment benefits.

Secondly, the popular legitimacy of programs based on the social insurance principle might be invoked to explain the anti-service bias of recent cutbacks. As Esping-Andersen (1996b) argues with reference to the welfare states of continental Europe, the consensual manner in which such programs were developed and the sense of entitlement which the insurance system produces, make it very difficult to reform these transfer programs. Thirdly, the preference for social insurance welfarism may reflect anxieties about further European integration, in so far as EU legislation prevents discrimination on the basis of nationality. Since social-insurance benefits are typically based on income from employment, such programs sidestep the political problem of foreigners taking advantage of generous benefits.

Most importantly perhaps, the patterns of retrenchment we have documented might be seen as a response to political pressure from a cross-class coalition of employers and workers in the export and multinational sectors. Both Peter Swenson (1991) and Herman Schwartz (1994) argue that with increased openness and intensified international competition, exposed-sector workers and employers become acutely concerned to contain the upward pressure on domestic costs generated by large public sectors. In this context, a new political-economic cleavage between sheltered and exposed sectors opens up and the exposed-sector coalition exerts increasing pressure for public-sector reform. From our perspective, it is important to recognize that this coalition is based on compromise among its constituent units rather than a complete convergence of interests. Left to their own devices, export-oriented employers would probably have favored across-the-board cuts in the welfare state, but the maintenance of basic social insurance entitlements is a condition for private-sector unions to support public-sector cutbacks and reforms.

This coalitional account works better for some countries than for others. In the British case, electoral support for Thatcherism certainly had a broad cross-class character, but Mrs. Thatcher's efforts to restructure the public sector did not involve the cooperation of private-sector unions, and the major source of business support came from the financial sector rather than export-oriented manufacturers. The British case would have to be couched in terms of a cross-class coalition centered on financial interests, including the financial interests of working-class homeowners and shareholders, and forged electorally rather than organizationally.

Thinking about public-sector restructuring in these terms, it is important to underscore that market-oriented reforms have had different consequences for different segments of the public-sector labor force. In the British case, the ratio of median public-sector to private-sector wages for blue-collar workers fell from 1.05 in 1984 to .98 in 1995, but the public-private ratio for white-collar workers remained stable at 1.09-1.10 (*New Earnings Survey*, various editions). This divergence of fortunes helps explain why public-sector unions were not able to mobilize more effective resistance to market-oriented reforms.

As noted earlier, Pierson distinguishes between programmatic and systemic retrenchment in his analysis of Thatcherism and Reaganism. While programmatic retrenchment refers to reductions in spending or benefit levels, the introduction of means-testing, etc., systemic retrenchment entails long-term changes in the political environment making the welfare state vulnerable to future attacks. Pierson points to four potential kinds of systemic retrenchment: turning public opinion against the welfare state, defunding the welfare state via tax cuts, institutional changes which undermine opposition access to decision-making, and weakening pro-welfare state interest groups. According to Pierson (1994:146-161), the Reagan administrations achieved significant systemic retrenchment by means of defunding the welfare state, but very little, if any, systemic retrenchment occurred in the U.K. during Mrs. Thatcher's tenure as Prime Minister. Pierson points out that popular support for the welfare state, especially the NHS, actually increased in the course of the 1980s and argues that the same holds for the fiscal position of the state. Also, he argues that there have been no institutional changes which weaken either welfare state proponents or reduce their access to decision making. Hence there is no reason to expect more successful attacks social programs in the future.

Pierson is certainly correct about British public opinion surveys. And yet it seems odd to suggest that they evince a bulwark of popular opposition to further retrenchment given the paltry electoral benefits Labour's commitment to increasing welfare state spending yielded in the 1980's and early 1990's. Arguably, Labour's recent landslide victory was a result of the leadership's embrace of small government, low taxation, and strict limits for public spending. From the perspective adopted here, the fact that Pierson's discussion of systemic retrenchment in the U.K. does not even mention the impact of Thatcherite policies on public-sector unions represents a serious shortcoming. In the 1960s and 1970s, unionized public-sector employees emerged as a key political constituency for the Labour Party and the welfare state. The cutbacks and restructuring described above have clearly weakened the market power of public-sector unions and their ability to mobilize politically. In some instances, market-oriented reforms have also created incentives for them to eschew "political unionism" in favor of a more economistic or professional orientation (cf. Clayton 1996).

As public-sector employees constitute a key constituency of Left parties in most countries, the idea that public-sector reform represents a form of systemic retrenchment as well as programmatic retrenchment would seem to be more broadly applicable. Despite the absence strong political figures, like Thatcher and Reagan, attacking the welfare state rhetorically, political and economic conditions in the second half of the 1990s are surely more favorable to welfare-state cutbacks and restructuring than they were in the second half of the 1980s (cf. Van Kersbergen 1997). In Western Europe, this is also, in some measure, a result of the constraints imposed by the Maastricht criteria for monetary union. Whether the current contractionary environment represents a transitional phase or a more permanent condition remains an open question, with important implications for the future of the welfare state.

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NOTES

1. Pierson's article builds on a previous book (Pierson 1996), analyzing the Thatcher and Reagan experiments in detail. Other comparative analyses emphasizing the resilience of welfare states include Stephens, Huber and Ray (1995), Swank (1997) and Garrett (1997). See Alber (1996) for a detailed critique of Pierson's work and Van Kersbergen (1997) for a comprehensive review of recent welfare state literature.

2. In our view, the importance of services relative to transfer payments constitutes the most obvious basis for distinguishing among "institutional welfare states" (cf. Esping-Andersen 1996a, and Swank 1997). Esping-Andersen's (1990) concept of "decommodification" partly captures, but also blurs this distinction. Scoring very high on Esping-Andersen's "decommodification" index, the Scandinavian welfare states have traditionally promoted labor force participation and strengthened the power of wage-earners as sellers of labor power (rather than reducing dependence on the sale of labor power).

3. It is sometimes argued that the fundamental purpose of the welfare state is to provide for social security, and that only some welfare states (in the first instance, the Scandinavian welfare states) have had redistributive ambitions as well. While welfare states clearly vary in their redistributive effects, we find this argument somewhat dubious: since some groups are far more insecure than others in a capitalist society, the public provision of social security is itself a redistributive activity.

4. Of course, the percentage of the population receiving social assistance might also increase because of political decisions to broaden the coverage of social assistance programs or to cut the benefits provided by more universalistic welfare programs.

5. Henceforth our discussion will focus on Pierson's four country cases. Though Pierson does not explicitly discuss case selection, it seems clear that these cases were chosen so as to provide for the representation of Esping-Andersen's (1990) three types of welfare states, with Sweden exemplifying the social democratic type, Germany the conservative type, and the U.S. the liberal type. The U.K. is a special case, which does not fit neatly into Esping-Andersen's typology: for Pierson and for us, it represents a limiting case of neo-liberal reform of the welfare state since 1980. Nowhere else has the neo-liberal agenda been pursued more rigorously and under more favorable circumstances.

6. Because of definitional changes, the Swedish data on total social spending from 1980 onwards are not comparable to pre-1980 data. Therefore, we include 1979 data, and compare 1980-92 with 1967-79.

7. See Marsden (1993) and OECD (1995) for OECD-wide surveys of changing pay practices in the public sector; Schager (1993) on the Swedish case and Elliott and Duffus (1996) on the British case.

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